

Audit Report



FY 1998 DOD SUPERFUND FINANCIAL TRANSACTIONS

Report Number 99-257

September 22, 1999

Office of the Inspector General
Department of Defense

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Acronyms

CEFMS
EPA

Corps of Engineers Financial Management System
Environmental Protection Agency



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

September 22, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on FY 1998 DoD Superfund Financial Transactions
(Report No. 99-257)

We are providing this audit report for your information and use. We performed this audit to comply with the requirement of the Superfund Amendments and Reauthorization Act of 1986 for annual audits of Superfund financial transactions. Because this report contains no findings or recommendations, no written comments were required, and none were received. Therefore, we are publishing this report in final form.

We appreciate the courtesies extended to the audit staff. Questions on this audit should be directed to Mr. James L. Kornides at (614) 751-1400, extension 11, e-mail jkornides@dodig.osd.mil, or Mr. John K. Issel at (614) 751-1400, extension 12, e-mail jissel@dodig.osd.mil. See Appendix D for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "David K. Steensma".

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-257
(Project No. 9FJ-9003)

September 22, 1999

FY 1998 DoD Superfund Financial Transactions

Executive Summary

Introduction. Annual audits of Superfund financial transactions are required by the Superfund Amendments and Reauthorization Act of 1986. The Environmental Protection Agency manages the Superfund, which is a trust fund established by Congress to respond to hazardous waste emergencies and to fund the cleanup of hazardous waste. The Superfund pays for the cleanup of hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Army Corps of Engineers (the Corps) manages the design and construction of cleanup sites paid for by the Environmental Protection Agency with money from the Superfund. The Environmental Protection Agency issues program authority to the Corps through interagency agreements. During FY 1998, for Superfund projects, the Corps recorded obligations totaling \$367.0 million and disbursements against FY 1998 and prior-year obligations totaling \$227.8 million.

Objectives. The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1998, and to assess the Corps management control program as it relates to Superfund transactions.

Results. We audited 12 of the 45 Corps districts that used the Corps of Engineers Financial Management System to record Superfund financial transactions. The statistical projections indicate that of the \$496.0 million Superfund financial transactions processed through the Corps of Engineers Financial Management System during FY 1998, the maximum amount of the net misstatement was less than \$969,710, or 0.20 percent, of the total value recorded, and was not material. The small number of discrepancies did not project a systemic control weakness or materially affect our conclusions that the Corps properly administered its portion of the Superfund. See Appendix A for details on the management control program.

Management Comments. We provided a draft of this report on July 30, 1999. Because this report contains no findings or recommendations, written comments were not required, and none were received. Therefore, we are publishing this report in final form.

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Background

The Superfund is a trust fund established by Congress to respond to hazardous waste emergencies and to fund the cleanup of hazardous waste. The Government uses the Superfund to clean up hazardous waste when the responsible party either cannot be identified or will not perform the cleanup work and when a State will not assume responsibility. The Environmental Protection Agency (EPA) is the manager of the Superfund.

Annual audits of Superfund financial transactions are required by Public Law 99-499, the "Superfund Amendments and Reauthorization Act of 1986."

Corps Responsibilities. The U.S. Army Corps of Engineers (the Corps) is responsible for managing the design and construction, using money from the Superfund, of certain sites on the national priority list designated by the EPA. The EPA issues program authority to the Corps through interagency agreements. During FY 1998, for Superfund projects, the Corps recorded obligations totaling \$367.0 million and disbursements against FY 1998 and prior-year obligations totaling \$227.8 million.

The Corps of Engineers Financial Management System. During FY 1998, the Corps implemented a new accounting system, the Corps of Engineers Financial Management System (CEFMS), at all Corps locations. CEFMS is an installation-level financial management tool that integrates the Corps management functions with accounting requirements for the U.S. Government Standard General Ledger. CEFMS provides automated accounting information that documents the obligation and disbursement transactions for all Corps functions, including those associated with the design and construction of Superfund projects.

Objectives

The overall audit objective was to determine whether the Corps properly administered its portion of the Superfund. Specific objectives were to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 1998. We also evaluated the Corps management control program as it relates to Superfund transactions. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program.

Superfund Financial Transactions

We audited 12 of the 45 Army Corps of Engineers Districts that used the Corps of Engineers Financial Management System (CEFMS) to record Superfund financial transactions. The statistical projections indicate that of the \$496 million Superfund financial transactions processed through CEFMS in FY 1998, the maximum amount of the net misstatement was less than \$969,710, or 0.20 percent of the total value recorded, and was not material. The small number of discrepancies did not project a systemic control weakness or materially affect our conclusions that the Corps of Engineers properly administered its portion of the Superfund. The 12 Corps districts had adequate management controls over the Superfund transactions.

Criteria for Superfund Transactions

The criteria for the Superfund are found in the EPA guidance for Federal agencies, "Superfund Financial Management and Recording," January 1989. The guidance requires authorization and documentation for all costs charged to Superfund projects so that EPA can sustain cost claims in court while attempting to recover funds from responsible parties. Specifically, the guidance requires documents to be retained by each cleanup site. Documentation should include time and attendance records, pay estimates, contractor invoices with project officer approval, proof of payment, progress reports, interagency agreements, and worksheets showing calculations of indirect costs.

Administration of the Superfund

The 12 Corps districts properly administered FY 1998 Superfund monies for the statistically selected transactions. In our review of obligation and disbursement transactions charged to the Superfund, we did not identify any material errors.

Statistical Sample of Corps Locations. We statistically sampled \$10.5 million of the \$496 million in FY 1998 Superfund financial transactions processed through CEFMS in FY 1998. The sample consisted of 40 different samples of 20 transactions each, but required audit visits to only 12 locations. The sites selected for review were the Corps districts in Omaha, Nebraska; Kansas City, Missouri; New York City, New York; Boston, Massachusetts; Savannah, Georgia; Nashville, Tennessee; Tulsa, Oklahoma; Seattle, Washington; Los Angeles, California; Albuquerque, New Mexico; Baltimore, Maryland; and Philadelphia, Pennsylvania.

Supporting Documentation. The 12 statistically selected Corps districts properly administered FY 1998 Superfund monies for the 800 statistically selected transactions. The Corps districts were generally able to provide supporting documentation for the 800 Superfund financial transactions selected for review. Supporting documentation for obligations consisted of contracts,

contract modifications, interagency or interdistrict agreements, travel authorizations, and purchase requests. Disbursements were supported by contracts, contract invoices, receiving reports, time sheets, and other appropriate documents. The documents supporting the transactions were properly authorized and recorded.

For the statistically selected transactions reviewed at the 12 Corps district offices, the audit disclosed no material errors. Specifically, the districts were able to provide accurate and reliable supporting documentation for all but an immaterial amount (\$11,000 absolute value) of the transactions reviewed.

The discrepant transactions in each Corps district were as follows:

Seattle Corps District. In the Seattle Corps District, six transactions reviewed were improper or were not fully supported. Of the transaction discrepancies, three transactions, valued at \$52.50 (absolute value), were the result of improper calculation of per diem for employees while in travel status. Two of the discrepancies, valued at \$707.96, were the result of travel charged to an incorrect Superfund project. The third discrepancy was for labor that was not supported by documentation. The Seattle Corps District took corrective action by making adjusting entries to the affected projects.

Baltimore Corps District. In the Baltimore Corps District, four transactions reviewed were determined to be improper. The improper transactions, with a value of \$1,144, included disbursements for the purchase of retirement manuals, a digital camera, work shoes, and a copy of the Federal Acquisition Regulation. The charges were posted to specific Superfund projects rather than properly charged to normal Corps overhead accounts. To correct the errors, the Baltimore Corps District posted the charges to the proper accounts and made reversing entries to the affected projects.

Los Angeles Corps District. In the Los Angeles Corps District, five transactions were either improper or not fully supported. Two of the discrepancies, valued at \$3,944, were a result of timekeeping errors. In each case, the employee's time sheet did not agree with time recorded in the timekeeping system. One transaction showed that an employee worked 15 hours on a Superfund project, although the time sheet showed that the employee actually worked 14 1/2 hours. The other transaction showed that 70 hours had been charged to one Superfund project, although the time sheet showed that 46 hours had been worked on a different Superfund project and 24 hours on non-Superfund projects.

Another \$293 error occurred in the Los Angeles District when a temporary duty trip was canceled and the airline billed and received payment for the canceled trip. Also, \$178 was inappropriately charged to the Superfund when an employee was sent from Los Angeles to Gila Bend, Arizona, for training in cardiopulmonary resuscitation. Corps personnel were unable to document the requirement for cardiopulmonary resuscitation training at the Superfund site.

Additionally, documentation could not be provided for a \$1,811 disbursement that paid for Superfund services provided by another Corps district. The Los Angeles Corps District corrected the problems by making the proper adjusting entries.

New York Corps District. In the New York Corps District, four transactions, valued at \$31.31, were inappropriately charged to the Superfund. The four transactions involved interest charges that resulted from violations of the Prompt Payment Act. The charges should have been applied against a Corps overhead account. The New York Corps District reversed the charges to the Superfund.

Savannah Corps District. In the Savannah Corps District, one transaction, valued at \$717.50, was not properly documented. In that case, a check was issued to cover relocation expenses for a family affected by a toxic substance. The check was issued to the son; Corps employees said that the son had power of attorney, but no copy of the power of attorney was on file. The Savannah Corps District is searching its files to locate the power of attorney.

Kansas City Corps District. In the Kansas City Corps District, two transactions were in error. One of the discrepancies, valued at \$10.50, was the result of an improper calculation of per diem pay for an employee. The other discrepancy, valued at \$258.15, was the result of a timekeeping error. The employee's time sheet did not agree with the amount of time entered into the timekeeping system, and an incorrect Superfund project was charged for the employee's time. The Kansas City Corps District corrected the erroneous entries immediately.

Summary

We reviewed statistically selected financial transactions at 12 Corps districts. In most cases, the policies, procedures, and controls established by EPA, DoD, and the Corps to manage Superfund obligations and disbursements were effective, and no material errors were found for the transactions tested. We are 95 percent confident that the net misstatement of the total dollar value of the Superfund financial transactions recorded in the CEFMS is not greater than \$969,710. The errors that occurred were not material when projected to the entire population of transactions, and the errors did not indicate a systemic problem. Therefore, we are not making any recommendations. The obligations and disbursements that represented FY 1998 DoD Superfund financial transactions were accurately recorded and were free of material error or misstatement.

Appendix A. Audit Process

Scope

We reviewed the policies, procedures, and controls established by the EPA, DoD, and the Corps for financial management of Superfund obligations and disbursements. During FY 1998, for Superfund projects, the Corps recorded obligations totaling \$367 million and disbursements totaling \$227.8 million against FY 1998 and prior-year obligations.

During FY 1998, the Corps implemented a new accounting system, the CEFMS, which contained approximately 70 percent of the FY 1998 Superfund transactions. Therefore, we limited our review to the Superfund financial transactions recorded in CEFMS.

DoD-Wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance and Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objectives and goals.

Objective: Fundamentally reengineer DoD and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. **(DoD-6)**

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objectives and goals.

Financial Management Functional Area. Objective: Strengthen Internal Controls. **Goal:** Improve Compliance with the Federal Managers' Financial Integrity Act. **(FM-5.3)**

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Financial Management high-risk area.

Methodology

Use of Computer-Processed Data. We relied on computer-processed data extracted from CEFMS. Although we did not formally assess the reliability of the computer-processed data, the source documentation agreed with the computer-processed data used in our sample. We did not find errors that would preclude the use of the computer-processed data to meet the audit objective.

Sampling Plan. The purpose of the statistical sampling plan was to estimate the net misstatement of the total dollar value reported for FY 1998 DoD Superfund financial transactions, as reported in CEFMS.

Audit Universe Represented. The CEFMS database contained approximately 70 percent of the FY 1998 DoD Superfund financial transactions. The CEFMS database financial transactions consisted of 38,822 transactions with a value of \$496 million at 45 locations.

Sampling Design. The sampling design used to determine the accuracy of the total dollar value reported was a two-stage design, with probability proportional to size, with replacement, at the first stage, and simple random sampling at the second stage. We selected 40 different samples of 20 transactions each, but requiring audit visits to only 12 different locations.

Sample Results. The table below lists the number of items sampled and the errors identified by location.

Results of Review				
Location	Number Sampled	Value of Sample	Errors	Value of Errors
Seattle	140	\$ 2,058,830.87	6	\$ 2,611.18
Kansas City	120	811,892.09	2	268.65
Omaha	120	1,706,532.52	0	0
New England	100	1,118,230.73	0	0
Baltimore	100	770,349.81	4	1,144.48
New York	60	294,307.69	4	31.31
Los Angeles	40	32,355.92	5	6,226.86
Tulsa	40	818,808.96	0	0
Philadelphia	20	20,360.82	0	0
Savannah	20	92,927.23	1	717.50
Nashville	20	2,920,375.02	0	0
Albuquerque	20	20,664.37	0	0
Total	800	\$10,465,636.03	22	\$10,999.98

Statistical Projection. We derived the following statistical estimate of the accuracy of the CEFMS dollar values from our sample data. We are 95 percent confident that the net misstatement of the total dollar value of the Superfund financial transactions recorded in the CEFMS is not greater than \$969,710 overstated.

Use of Technical Assistance. We obtained technical assistance on statistical sampling from the Quantitative Methods Division of the Audit Followup and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

Audit Period and Standards. This financial-related audit was performed from October 1998 through July 1999 in accordance with auditing standards issued by

the Comptroller General of the United States, as implemented by the Inspector General, DoD. Our review included tests of management controls that we considered necessary.

Contacts During the Audit. We visited or contacted individuals or organizations within DoD and EPA. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control Program," and DoD Instruction 5010.40, "Management Control Program Procedures," August 26, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of the Corps management controls over the accounting and recording of Superfund financial transactions. Specifically, we reviewed the management controls established to ensure that Superfund obligation and disbursement transactions were reliable and completely recorded and that proper documentation was maintained to support the recorded transactions. Because we did not identify a material weakness, we did not assess management's self-evaluation.

Adequacy of Management Controls. The Corps had established management controls over the obligation and disbursement of funds in accordance with applicable laws and regulations. Based on our statistical review of \$10.5 million in obligations and disbursements charged by 12 Corps districts to the Superfund during FY 1998, the accounting and administrative control system established by the Corps for its district offices reviewed provided reasonable assurance of the following:

- obligations and disbursements complied with applicable laws,
- obligations and disbursements were properly recorded, and
- program functions were efficiently and effectively carried out in accordance with management policy.

Management controls at the Corps districts that we visited were adequate in that we identified no material management control weaknesses.

Appendix B. Summary of Prior Coverage

Inspector General, DoD

Inspector General, DoD, Report No. 98-200, "FY 1997 DoD Superfund Financial Transactions," September 16, 1998

Inspector General, DoD, Report No. 97-212, "FY 1996 DoD Superfund Financial Transactions," September 4, 1997

Inspector General, DoD, Report No. 96-227, "FY 1995 DoD Superfund Financial Transactions," September 19, 1996

Army Audit Agency

Army Audit Agency Report No. NR 95-413, "FY 94 Superfund Financial Transactions," August 31, 1995

Appendix C. Discrepant Transactions

Location	Sample Numbers	Improper Charge	Incorrect Project	Travel Calculations	Unsupported Transactions
Seattle	1-16			\$(22.50)	
Seattle	1-18		\$ 353.98		
Seattle	2-34			7.50	
Seattle	3-47				\$ 1,850.72
Seattle	4-77			(22.50)	
Seattle	5-96		353.98		
Baltimore	3-55	\$ 87.48			
Baltimore	4-68	699.95			
Baltimore	4-79	113.05			
Baltimore	5-97	244.00			
Los Angeles	1-6		36.38		
Los Angeles	1-11	293.00			
Los Angeles	2-2	177.74			
Los Angeles	2-6		3,908.24		
Los Angeles	2-11				1,811.50
New York	1-19	13.75			
New York	2-18	2.24			
New York	3-10	7.30			
New York	3-12	8.02			
Savannah	1-3				717.50
Kansas City	2-13			10.50	
Kansas City	2-15		258.15		
Absolute Value	22	\$1,646.53¹	\$4,910.73²	\$63.00³	\$4,379.72⁴
¹ 10 improper charges.					
² Five incorrect projects.					
³ Four travel calculations.					
⁴ Three unsupported transactions.					

Appendix D. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army
Commander, Army Corps of Engineers

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency
Inspector General, Defense Intelligence Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
Director, Environmental Protection Agency*
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
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